

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 PA-02 /100 W
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R 072352Z MAR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6555
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 01156

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: EFIN, ECON, CA
SUBJECT: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. CANADIAN REAL GNP GREW BY 2.6 PERCENT IN 1977 (SEE SEPTTEL); REAL DOMESTIC PRODUCT ROSE BY 2.8 PERCENT FOR YEAR. AUTO SALES DECLINED IN FEBRUARY, BUT LESS SHARPLY THAN IN PREVIOUS TWO MONTHS. PACE OF PROVINCIAL FOREIGN BORROWING HAS PICKED UP. SHORT AND LONG TERM INTEREST RATES IN WEEK ENDING MARCH 3 ESSENTIALLY UNCHANGED FROM PREVIOUS WEEK. CANADIAN DOLLAR DECLINED SOMEWHAT AGAINST U.S. DOLLAR DURING WEEK; GOC ANNOUNCEMENT OF U.S. DOLS 750 MILLION BOND ISSUE IN U.S. MARKET HAD LITTLE EFFECT ON EXCHANGE RATE. END SUMMARY.

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2. DOMESTIC DEVELOPMENTS. REAL GNP ROSE BY 2.6 PERCENT IN 1977. GROWTH WAS LED BY STRONG EXPANSION OF EXPORTS, WHILE FINAL DOMESTIC DEMAND INCREASED BY ONLY 1.9 PERCENT (SEE SEPTTEL).

3. INDEX OF REAL DOMESTIC PRODUCT INCREASED 0.1 PERCENT IN DECEMBER TO 129.0 (1971 EQUALS 100). DECEMBER ADVANCE

BROUGHT AVERAGE INDEX FOR YEAR 1977 TO 127.7, A RISE OF 2.8 PERCENT OVER 1976 LEVEL. PRODUCTION OF GOODS INCREASED BY 2 PERCENT, WHILE OUTPUT OF SERVICES ROSE BY 3.3 PERCENT. GROWTH LEADERS IN 1977 WERE FORESTRY (10.2 PERCENT), UTILITIES (5.2 PERCENT) AND FINANCE, INSURANCE AND REAL ESTATE (5 PERCENT). MANUFACTURING PRODUCTION GREW BY 3.1 PERCENT. SIGNIFICANT DECLINES WERE REGISTERED IN AGRICULTURE (4 PERCENT), CONSTRUCTION (2.5 PERCENT).

4. DOMESTIC SALES OF NORTH AMERICAN-BUILT AUTOS FELL BY 3.2 PERCENT IN TWELVE MONTHS TO FEBRUARY. FEBRUARY DECLINE FOLLOWS MUCH SHARPER FALLS IN JANUARY (16 PERCENT) AND IN DECEMBER (25 PERCENT). INDUSTRY SPOKESMAN SAID DECLINE IN RATE OF DECREASE COULD INDICATE THAT AUTO SALES COULD TURN CORNER TOWARD POSITIVE GROWTH IN NEAR FUTURE.

5. GOVERNMENT DEFICIT. FEDERAL GOVERNMENT DEFICIT WAS CDOLS 436 MILLION IN JANUARY BRINGING DEFICIT FOR FIRST 10 MONTHS OF FISCAL YEAR (ENDING MARCH 31) TO CDOLS 6.6 BILLION, AN ANNUAL RATE OF CDOLS 7.9 BILLION. IN FIRST 10 MONTHS OF FISCAL YEAR FEDERAL GOVERNMENT SPENDING ROSE BY 10.1 PERCENT, REVENUES INCREASED BY ONLY 0.9 PERCENT. NEAR STAGNATION OF REVENUES REFLECTS SLOW ECONOMIC GROWTH, BUT ALSO CAUSED BY REVISION IN FEDERAL/PROVINCIAL TAX ARRANGEMENT UNDER WHICH PROVINCES RECEIVE LARGER SHARE OF TOTAL TAX REVENUES.

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6. CAPITAL MARKETS. ACCORDING TO WOOD GUNDY LTD., TOTAL GROSS DOMESTIC AND FOREIGN PUBLIC AND PRIVATE DEBT FINANCING IN JANUARY WAS CDOLS 2.6 BILLION, DOWN SLIGHTLY FROM 2.7 BILLION IN JANUARY 1977. BREAKDOWN BY BORROWER WAS: FEDERAL GOVERNMENT (OVER THREE YEAR TERM) 875 MILLION; PROVINCIAL 1.1 BILLION; MUNICIPAL 100 MILLION; AND CORPORATE 518 MILLION. 46 PERCENT OF TOTAL WAS RAISED IN EXTERNAL MARKETS, DOWN FROM 54 PERCENT IN JANUARY 1977. MAIN FOREIGN ISSUES SETTLED IN JANUARY WERE EURO U.S. DOLS 750 MILLION HYDRO QUEBEC FLOATING RATE ISSUE PLUS U.S. DOLS 500 MILLION STANDBY AND U.S.DOLS 200 MILLION BELL CANADA 9 PERCENT DEBENTURES OF 2008.

7. SHORT AND LONG TERM INTEREST RATES STABLE IN WEEK ENDING MARCH 3. INTEREST RATES ON THREE MONTH TREASURY BILLS WAS 7.30 PERCENT IN WEEK, UNCHANGED FROM PREVIOUS WEEK AND UP FROM 7.18 PERCENT A MONTH AGO.

8. FOREIGN BORROWING. LACK OF FOREIGN ISSUES IN FEBRUARY BLAMED IN PART FOR RECENT BATTERING OF CANADIAN DOLLAR EXCHANGE RATE, BUT SCHEDULE OF NEW FOREIGN BORROWING FOR

MARCH HAS PICKED UP.

-- FEDERAL GOVERNMENT ANNOUNCED INTENTION TO FLOAT U.S.
DOLS 750 MILLION BOND ISSUE IN NEW YORK MARKET (SEE OTTAWA
1117).

-- QUEBEC GOVERNMENT IS PREPARING TO RAISE 25 - 30 BILLION
YEN IN JAPANESE MARKET - CANADIAN DOLLAR TARGET FOR THIS
ISSUE IS CDOLS 125 MILLION. (QUEBEC ALSO REPORTEDLY MAKING
QUIET ARRANGEMENTS TO BORROW UP TO CDOLS 100 MILLION IN
DOMESTIC MARKET THROUGH PRIVATE PLACEMENT WITH CANADIAN
LIFE INSURANCE COMPANIES. INTEREST RATE EXPECTED TO BE
ABOUT 10.25 PERCENT).

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-- HYDRO QUEBEC PLANS TO FLOAT 15 YEAR, 3.75 PERCENT ISSUE
OF 130 MILLION SWISS FRANCS. ISSUE IS GUARANTEED BY
PROVINCE OF QUEBEC.

-- NEW BRUNSWICK ELECTRIC POWER COMMISSION ALSO PLANS TO
TAP SWISS MARKET WITH 100 MILLION SWISS FRANC OFFERING.
HYDRO QUEBEC AND NEW BRUNSWICK ELECTRIC ISSUES WILL NOT BE
SUBJECT TO NEW SWISS RULE LIMITING PROPORTION OF SWISS
FRANC DENOMINATED ISSUES WHICH CAN BE FINANCED OUTSIDE OF

SWITZERLAND SINCE ARRANGEMENTS HAD BEEN MADE BEFORE RULES
ANNOUNCED.

9. YIELD SPREAD BETWEEN ONTARIO AND QUEBEC, U.S. - PAY
BOND ISSUES HAS INCREASED RECENTLY TO ABOUT 80 BASIS
POINTS, LARGEST SPREAD SINCE ELECTION OF PARTI QUEBECOIS
(PQ) IN NOVEMBER, 1976. IN SEPTEMBER 1977, YIELD ON QUEBEC
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ISSUES WAS ABOUT 40 BASIS POINTS ABOVE ONTARIO ISSUES,
COMPARED WITH ABOUT 20 BASIS POINT SPREAD PRIOR TO ELEC-
TION OF PQ.

10. EXCHANGE MARKET. CANADIAN DOLLAR DECLINED SOMEWHAT
AGAINST U.S. DOLLAR IN WEEK ENDING MARCH 3. AVERAGE EX-
CHANGE RATE FOR WEEK WAS U.S. .8948, COMPARED WITH U.S.
.8957 PREVIOUS WEEK. ANNOUNCEMENT OF FEDERAL GOVERNMENT
BOND PLACEMENT IN NEW YORK MARKET HAD LITTLE APPARENT
IMPACT ON EXCHANGE RATE (SEE OTTAWA 1117). MARKET PARTICI-
PANTS NOTED THAT GOC STEPPED UP ITS INTERVENTION IN SUPPORT
OF DOLLAR TOWARD END OF WEEK. ENDERS

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